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DIRECTORATE OF
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State Department review completed

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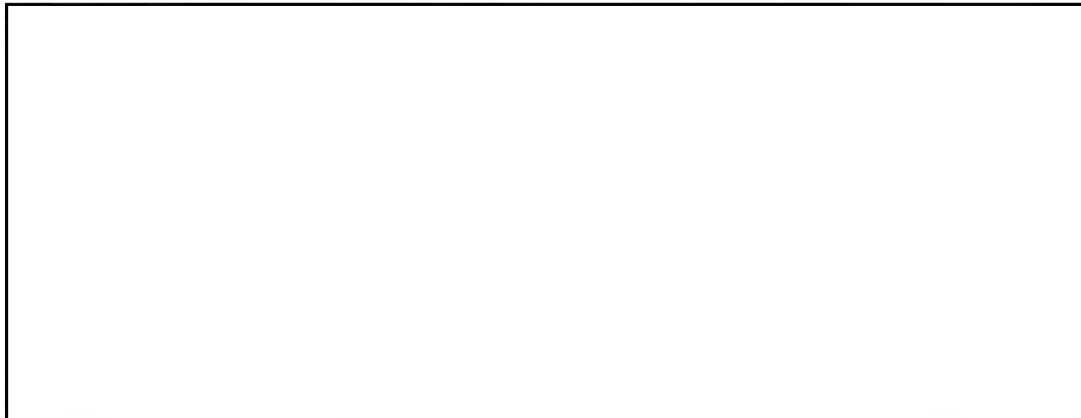
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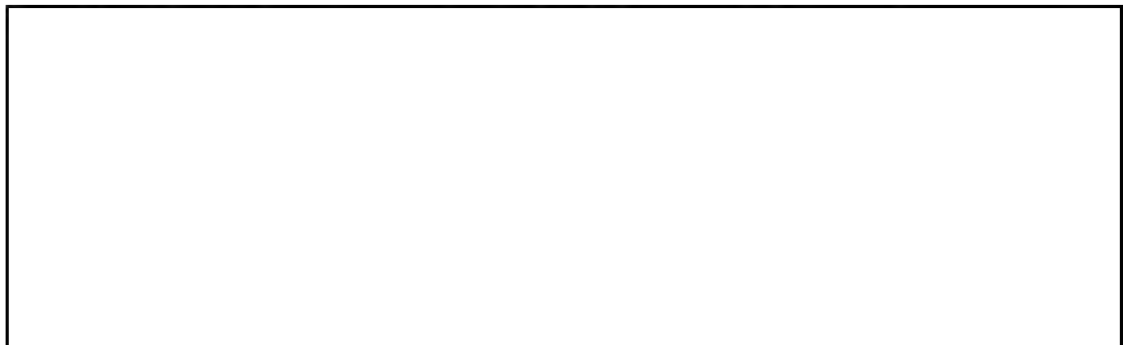
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CHILE: Some important leaders of the government coalition may be ready to adopt more radical policies.

There has been rising concern among both Communist and Socialist Party leaders over the steady erosion of public support for the government. Their dissatisfaction has focused increasingly on President Allende since the first of the year. Their resentment over his high-handedness is beginning to override their deep differences over how fast Chile should be converted into a socialist state.

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There is growing evidence that Communist leaders, noted for their shrewd political judgment, are reevaluating the cautious approach they have long promoted. Their chief concern is the deep inroads being made by the extremist Movement of the Revolutionary Left (MIR) into the Communist Party's role as champion of the lower classes. Party leaders are particularly determined to fight the MIR's growing control among labor and youth in the propaganda media, and they appear prepared to take a more radical position in this effort.

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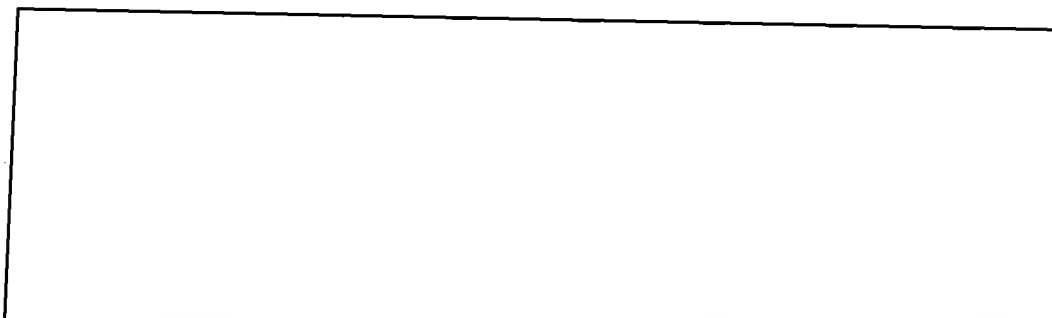
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USSR-JAPAN: Soviet leaders reportedly are considering how to handle the "Northern Territories" question in future peace treaty negotiations with Japan.



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Since Foreign Minister Gromyko's trip to Tokyo last January, public lecturers in the USSR have been saying that the status of the islands will be discussed in peace treaty talks with the Japanese.

There are varying reports of what specific concessions Moscow may be prepared to grant. Some Russians have hinted that Moscow might return two of the four disputed islands; others have talked of the return of all four. Soviet officials have also suggested that Japan might be satisfied with some formula by which Tokyo obtained de facto control while Moscow retained final sovereignty.

Meanwhile, Moscow and Tokyo are exploring the nature of peace treaty talks, which seem likely to begin later this year. Moscow may hope its signs of flexibility on the key issue of the northern territories will encourage reciprocal concessions from the Japanese. Japanese Foreign Minister Fukuda, for example, recently suggested that Japan would consider demilitarization of the islands if they were returned. If Moscow decides to negotiate settlement of the territorial question, it would undoubtedly seek to drive a hard bargain that might include a provision such as Fukuda suggested, or other political and economic concessions such as a firm Japanese financial commitment to Siberian development.

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MALAYSIA-USSR: Prime Minister Razak's acceptance of an invitation to visit Moscow next fall underlines Kuala Lumpur's desire to maintain a balanced foreign policy.

Razak evidently believes that a trip to the Soviet Union will help balance increased Malaysian commercial and cultural contacts with China and will allay the fears of Malaysia's Southeast Asian neighbors that it might rush into an exchange of trade or diplomatic missions with Peking.

Both Razak and Soviet officials will want to discuss the problem of security in Asia in the context of the Soviet proposal for collective security and Malaysia's proposal for the neutralization of Southeast Asia. As yet, none of the great powers has endorsed the neutrality concept, which was accepted as a desirable objective by members of the Association of Southeast Asian Nations at a meeting last November. Moscow can also be expected to raise the issue of the Malacca Strait and to reiterate its objections to the recent Indonesian-Malaysian announcement that proclaimed the strait as territorial waters.

The Soviets probably will also use the occasion to press their offers of foreign aid for Malaysian development projects. Razak has displayed only lukewarm interest toward previous Soviet offers but has agreed to a Soviet feasibility study for a large flood-control project in Malaysia's relatively underdeveloped east coast area. Kuala Lumpur's desire to retain its favorable trade relationship with Moscow, a major purchaser of Malaysian rubber, will undoubtedly influence Razak's final decision on Soviet aid.

The Malaysian leaders recognize Indonesia's sensitivity on the subject of Communist influence in Southeast Asia, and Razak will undoubtedly seek to reassure President Suharto, when they meet this week in Djakarta, that he understands the "perils" of working with Communist powers. Razak approaches the matter of Soviet aid with great caution, and he doubtless will ensure that any technical assistance agreement narrowly restricts the range of Soviet operations and the number of personnel allowed in Malaysia.

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BANGLADESH: Prime Minister Mujibur Rahman apparently is resuming a more active schedule after health problems in mid-April reportedly caused a reduction in his public activities. Mujib has participated in several recent party and cabinet meetings, and on 1 May he appeared on Bangladesh radio and television to describe government relief efforts and a new program of bonuses and benefits for low-income farmers and government workers. A week earlier, the prime minister was interviewed in Dacca by a respected

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LIBYA: The government may soon begin negotiations with British Petroleum (BP) on compensation for its nationalized interests in Libya. Libya, apparently anxious to get out from under the legal cloud BP has effectively imposed on producing and marketing the "hot" oil, has asked the company to send a high-level representative to Cairo. The approach to BP also suggests that Deputy Premier Jallud's trip to the USSR and Eastern Europe in March was unsuccessful in solving the marketing problems. Libya, however, will soon send a delegation to Moscow to discuss implementation of the economic and technical assistance agreement signed in early March.

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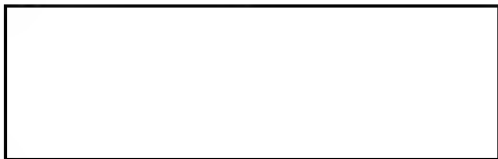
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